amo REPORT

REPORT SERIES 1988

88-7 UNCONDITIONAL GRANTS PROPOSAL FOR 1989

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO

AUGUST, 1988

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ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Association of Municipalities of Ontario, a non-partisan voluntary organization, is united to promote the values of the municipal government system and the status of the municipal level of government as a vital and essential component of the total inter-governmental framework of Ontario and Canada.

The Association acts as the collective voice of Ontario's municipal governments and is organized to accomplish through cooperation and coordination, what the majority have neither the time nor the resources to do individually.

The Association represents some six hundred (600) municipal governments throughout Ontario. The governing body is composed of some eighty (80) municipal elected and appointed officials, who in turn represent a wide-range of municipal government interest.

The following sections and affiliated municipal professional associations form an important part of the Association's structure and therefore, play an important part in its activities in terms of the Board of Directors, program and policy development:

Association Sections:

* County and Regional Section
* Large Urban Section
* Northern Ontario Section (FONOM/NOMA)
* Rural Section (ROMA)
* Organization of Small Urban Municipalities Section

Association Affiliates:

* Association of Municipal Clerks and Treasurers of Ontario
* Association of Municipal Tax Collectors of Ontario
* Municipal Engineers Association
* Ontario Municipal Administrators Association
* Ontario Municipal Personnel Association
* Ontario Municipal Social Services Association
* Society of Directors of Municipal Recreation of Ontario
* Urban Finance Officers Association of Ontario

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The Association's report "Unconditional Grants Proposals for 1989" was transmitted August 29, 1988 to the Honourable John Eakins, Minister of Municipal Affairs and to the Honourable Robert Nixon, Treasurer of Ontario.

SUMMARY OF RECOMMENDATIONS

1. The Association recommends that the growth rate for unconditional grants approximate the increase in provincial revenues and that the increase for the 1989 unconditional grants program be 11.0 percent.

2. The Association recommends that the increase in unconditional grants funding be directed toward the General Support Grant and accordingly that the General Support Grant rate be increased from 6 percent to 7 percent for the 1989 grants year.

3. The Association recommends for the 1989 unconditional grants year that all municipalities be guaranteed a minimum increase in total unconditional grant entitlements of 40 percent of the overall total percentage increase in the unconditional grants program provided by the province.

4. Since municipal expenditures are higher in northern Ontario the Association recommends that the level of the Northern Support Grant be retained as this grant along with other conditional grants permit northern councils to provide their citizens with services comparable to southern Ontario without having to raise tax levels above southern Ontario levels.

5. Due to the shift and perhaps loss of funds to municipalities within a Region, the Association recommends that the General per Household Grant continue to be paid to upper-tier municipalities in Regions and lower-tier municipalities in Counties.

6. Since the analysis has indicated that the unconditional grants program does not favour high growth municipalities the Association recommends that the existing unconditional grants structure be maintained for the 1989 unconditional grants year.

INTRODUCTION

Over the past three years the Association of Municipalities of Ontario has worked with the Ministry of Municipal Affairs in attempting to improve the unconditional grants program. This effort has been a productive one for the Association in that recommended changes to the system have been endorsed by the provincial government for the 1987 and 1988 grants years.

In 1987 the provincial government implemented AMO's recommendations to: maintain the Resource Equalization Grant (REG) standard to the level of $57,000 to increase the stability of the grant from changes in market values; apply the REG formula directly to the upper-tier municipalities so that upper-tiers would be required to qualify for the grant on their own merits; include the General and Density per Household Grant in the definition of the levy base for Support Grant purposes and; expand the equalization factor averaging procedure to five years from three years to reduce year to year swings.

In 1988, the provincial government implemented AMO's recommendations for the unconditional grants program to: include the Police per Household Grant in the definition of the levy base for General and Northern Support Grant purposes and; replace the $3 per household ceiling on REG increases with one based on a uniform proportion of unconstrained entitlements.

For the 1989 unconditional grants year the Association is proposing several recommendations for the provincial government's consideration. These recommendations are detailed in the following text.

ASSOCIATION'S POSITIONS ON THE LEVEL OF SUPPORT GRANTS, HOUSEHOLD GRANTS, RESOURCE EQUALIZATION GRANT AND THE REVENUE GUARANTEE

In 1987, the Association developed several policy positions with regard to the structure of the unconditional grants program. These positions are detailed in the AMO Report 87-11, Unconditional Grants Proposal for 1988. A summary of these positions is provided below.

- The General Support Grant and the Northern Support Grant combined should be maintained at a rate of approximately 50 percent of the total unconditional grants program entitlement.

- The General per Household Grant, the Police per Household Grant and the Density per Household Grant combined should be maintained at a rate of approximately 40 percent of the total unconditional grants program entitlement.

- The Resource Equalization Grant should be maintained at a rate of 10 to 15 percent of the total unconditional grants program entitlement until such time as municipalities undergo Section 63 (County, Region, District-wide reassessment) or full market value reassessment province-wide in order to make the grants more reliable and standardized.

- The Revenue Guarantee should ensure that for the 1988 grants year, municipalities receive a total unconditional grant increase of no less than 50 percent of the overall total percentage increase in the unconditional grants program provided by the province and that this 50 percent be deceased by 10 percent per year for each of five years.

It is within this policy framework that the Association presents its recommendations for the 1989 unconditional grants program.

RECOMMENDATIONS FOR THE 1989 UNCONDITIONAL GRANTS PROGRAM

1. EXAMINATION OF THE TOTAL UNCONDITIONAL GRANTS ALLOCATION

Over the past three years the Association has examined many scenarios to improve the unconditional grants structure. The greatest difficulty encountered by AMO was effecting changes that did not cost more than a 4 to 5 percent increase in the previous year's unconditional grants allocation. While many improvements were attempted, the financial impact of the improvements were prohibitive. While AMO appreciates the human resource assistance of the Ministry of Municipal Affairs as well as their commitment to improving the current grants structure, the Association has found that the process has been severely limited each year by the lack of additional funds provided for the unconditional grants program.

AMO believes that much more could be achieved by the review process if it were less financially constrained. Since 1982, the unconditional grants program has not kept pace with increases in municipal expenditures (Table 1). In 1987, unconditional grants increased by 4.9 percent while municipal expenditures increased by 8.8 percent.

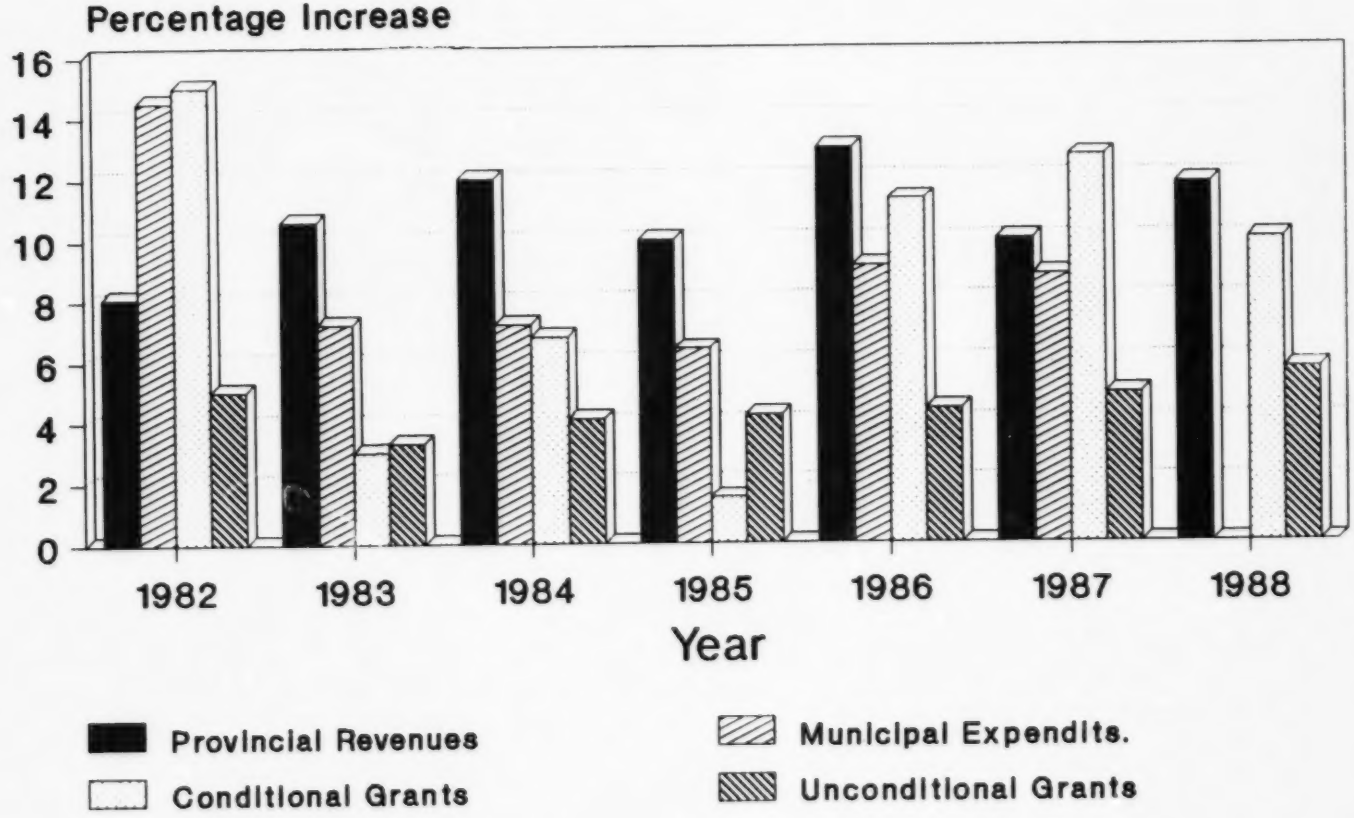
Table 1

Year	% Increase in Municipal Expenditures	% Increase in Unconditional Grants	% Increase in Provincial Revenues
1982	14.5	5.0	8.1
1983	7.2	3.3	10.6
1984	7.2	4.1	11.6
1985	6.4	4.2	9.8
1986	9.1	4.4	12.6
1987	8.8	4.9	10.0
1988		5.7	11.8

Source: Provincial Budgets and Local Government Finance in Ontario

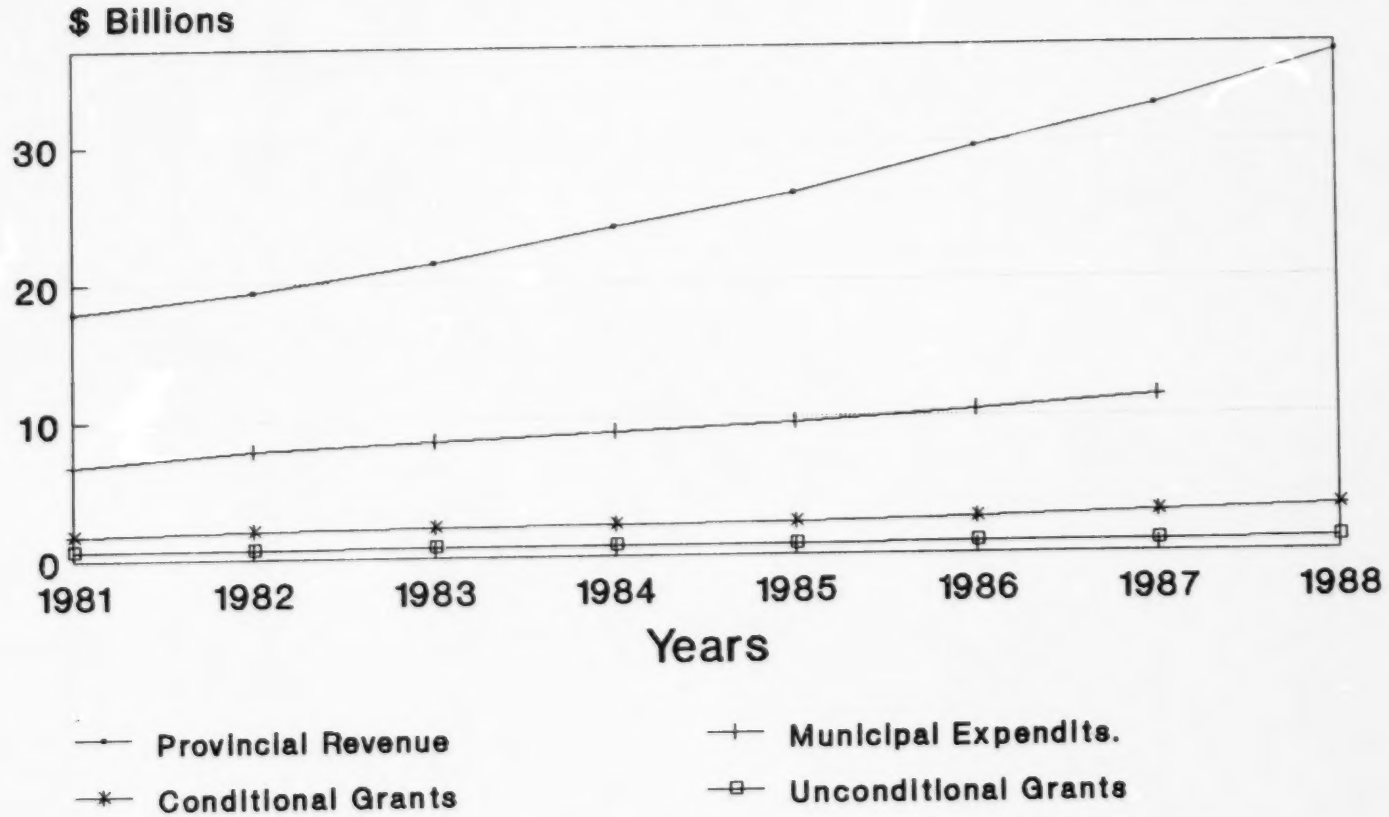
In addition, the annual increases in provincial revenues have ranged from 8.1 percent to 12.6 percent between 1981 and 1988.

Increases in Provincial Revenues, Municipal Expenditures and Grants



Source: Provincial Budgets

Provincial Revenues, Municipal Expenditures and Grants



Source: Ontario Budgets

The Association, in the past has endorsed the position that the annual rate of increase in annual transfer payments to municipalities should be at least equal to the rate of increase in provincial revenues. According to the 1988 budget, provincial revenues are anticipated to increase by 11.8 percent. The Association believes therefore that the 1989 unconditional grants allocation should increase by approximately 11 percent.

RECOMMENDATION

The Association recommends that the growth rate for unconditional grants approximate the increase in provincial revenues and that the increase for the 1989 unconditional grants program be 11.0 percent.

In addition, the Association believes that this increased funding should be directed toward the General Support Grant as this payment is received by all municipalities and is the most responsive and progressive component of the unconditional grants program. AMO also believes that this would be an appropriate time to increase the level of this grant since it has not been increased from the level of 6 percent of the previous year's levy since 1975.

RECOMMENDATION

The Association recommends that the increase in unconditional grants funding be directed toward the General Support Grant and accordingly that the General Support Grant rate be increased from 6 percent to 7 percent for the 1989 grants year.

According to the Association's position that the Revenue Guarantee for 1989 should be 40 percent of the average increase in unconditional entitlements, the Association recommends that all municipalities be guaranteed an increase of approximately 4.4 percent over their previous year's entitlement.

RECOMMENDATION

The Association recommends for the 1989 unconditional grants year that all municipalities should be guaranteed a minimum increase in total unconditional grant entitlements of 40 percent of the overall total percentage increase in the unconditional grants program provided by the province.

2. EXAMINATION OF MAINTAINING THE DIFFERENTIAL IN SUPPORT GRANTS BETWEEN NORTHERN AND SOUTHERN ONTARIO

Background

In 1983, AMO recognized that there was a need for additional support for municipalities in northern Ontario. At that time however, AMO recommended a provincial review of the level of support to determine whether the rate of support was appropriate and whether it accurately reflected the cost differential faced by northern municipalities compared to southern municipalities. While there was no doubt considerable variation in costs, it was felt that it may be more appropriate that these costs differentials be reflected in individual program subsidies.

Since that time, the province has not undertaken a review of the differential and as such the issue has once again been placed on the agenda of the AMO Fiscal Policy Committee.

The Northern Support Grant (NSG) and the General Support Grant (GSG) were introduced in 1973 at the same time as the Resource Equalization Grant. Also in 1973, mining revenue payments were discontinued. These payments were provided to mining municipalities, most of which were in the north, in recognition of their unusual financial position by virtue of the presence of mining enterprises which could not be easily assessed. The Northern Support Grant was introduced in part, to replace this payment.

Since 1977 the rates for the GSG and the NSG have been 6 percent and 18 percent of a municipality's previous year's net general dollar levy. The only exception to this were the years 1983-85 where the GSG and the NSG rates were 5.75 percent and 17.25 percent respectively. The return of the rates to 6 percent and 18 percent in 1986 was prompted by AMO in our response to the Ministry of Municipal Affairs 1983 discussion paper on unconditional grants.

Currently all municipalities in both northern and southern Ontario are paid the GSG. Northern municipalities receive an additional 18 percent under the NSG however for a combined support of 24 percent of the net levy. For the purposes of calculating the NSG, the Ministry of Municipal Affairs defines northern Ontario as all areas lying north of the French River and Lake Nipissing plus the territorial districts of Nipissing, Manitoulin and Parry Sound.

Analysis of the Differential in Support Grant Rates

Many northern municipalities are isolated communities subjected to conditions, climatic and otherwise, not usually prevalent in more southern parts of the province. Many northern municipalities are also located in parts of the province designated as territorial districts. Because districts are not organized for municipal purposes, virtually all of the land area does not come under municipal jurisdiction. This is not the case with municipalities located in southern Ontario as all southern properties fall under municipal jurisdiction and are therefore required to contribute to municipal services.

The uniqueness of these conditions has placed a greater financial burden on northern municipalities in the provision of municipal services. This burden is twofold in that servicing costs are not only much higher but also those properties and residents located in the unorganized areas are not required to contribute to municipal revenue through property taxes.

The payment of the Northern Support Grant as a percentage of actual municipal spending net of conditional grants and other non-tax revenues makes the NSG responsive to cost pressures in northern municipalities. Higher energy and other costs are automatically followed by higher grant entitlements to the extent that these costs are reflected in municipal budgets.

The Association's examination of municipal expenditures in northern and southern Ontario reflects the fact that municipalities in northern Ontario face significantly higher costs in providing municipal services (based on 1986 figures).

. Cities in northern Ontario spend on average $2,670 per household compared to $1,994 per household in southern Ontario.

. Towns in the north spend, on average, $2,696 per household compared to $1,928 in the south.

. Rural northern municipalities spend, on average, $1,884 per household compared to $1,458 for southern rural municipalities (all municipalities in Counties and Districts excluding cities).

Residential tax levels in northern and southern Ontario are however comparable. This reflects the substantial financial support provided by the provincial government to northern communities through grant programs.

. Residents in northern cities pay, on average $785 per household compared to $886 in southern Ontario.

. Residents in northern towns pay, on average, $663 per household compared to $788 in southern Ontario.

. Residents in the rural north pay, on average $576 per household compared to $703 in the rural south (all municipalities in Counties and Districts excluding cities).

Other Considerations

An evaluation of the Northern Support Grant must also take into account other government initiatives designed to assist northern residents and communities. These initiatives include:

. the $27 motor vehicle licence fee for car owners in the north;

. conditional grant formulae which compensate for higher costs and lower resource bases such as the winter control factor used by the Ministry of Transportation in calculating the road subsidy allocation;

. the explicitly preferential grant rates in favour of the north found in certain programs such as grants to school boards weighing factor for northern costs;

. the Ministry of Northern Development and Mines grant to assist economic and social development in northern municipalities.

RECOMMENDATION

Since municipal expenditures are higher in northern Ontario the Association recommends that the level of the Northern Support Grant be retained as this grant along with other conditional grants permit northern councils to provide their citizens with services comparable to southern Ontario without having to raise tax levels above southern Ontario levels.

3. EXAMINATION OF SPLITTING THE GENERAL PER HOUSEHOLD GRANT BETWEEN UPPER AND LOWER TIER MUNICIPALITIES IN REGIONS

At the January 1987 Board of Directors meeting, the members requested that the Association consider the viability of splitting the General per Household Grant between upper and lower-tier municipalities within Regions. Currently the General per Household Grant of $30 per household is paid to upper-tier municipalities within Regions and to lower-tier municipalities within the rest of the province. The paying of this grant to the regional upper-tiers historically coincided with the creation of Regional governments and the transfer of major responsibilities from lower-tiers to the upper-tier level. Approximately 719 of the 839 municipalities in the province receive household grants. It should be noted that within the examination of splitting per household grants between upper and lower-tiers, the Association also was required to consider the splitting of payments-in-lieu of taxes (PIL's) and telephone and telegraph revenues (T & T) as the provincial government had stated that any consideration of the former would be accompanied by a corresponding split in the latter. Currently payments-in-lieu of taxes and telephone and telegraph revenues are paid directly to lower-tier municipalities.

. The main argument in favour of splitting the per household grant between upper and lower-tier municipalities is that lower-tier municipalities in Regions should also receive the grant.

. Another argument favouring a split in the grant is that there would be no change in the total amount of dollars received by the regional area as a whole - rather there would just be a shift from the upper-tier to the lower-tiers (i.e. no change to the ratepayers). The split therefore could be viewed as an "accounting change" rather than a changed in the total allocation of funds to the Regional area.

  While at first glance, it appears that the overall impact to the taxpayers in a Regional area would be nil, there could in fact be an increase in overall taxes levied as the upper-tier could increase its levy to compensate for the loss in grants while lower-tiers could treat the increased grant as a windfall and provide for a "normal mill rate increase" as well.

. There would be shifts in the funding to lower-tier municipalities as a result of the difference in paying out funds on the basis of households as opposed to on the basis of assessment. Currently the General per Household Grant funds are indirectly shared with the lower-tier municipalities through the requisition process as the higher the amount of grants received at the upper-tier level, the lower the requisition to the lower-tiers. Small rural municipalities within regions might therefore actually lose funds and relatively high density urban area might benefit because the proportion of households is greater in large municipalities than the proportion of their assessment when compared across the whole region.

. Total unconditional grants paid to the regional area as a whole might actually decrease as some of the increases in General per Household grants at the lower-tier might not increase their level of grants but merely reduce their Revenue Guarantee. In this scenario the region as a whole would lose grant funds.

. While payments-in-lieu of taxes and telephone and telegraph revenues are paid directly to the lower-tier municipalities they are indirectly shared with the upper-tiers through the apportionment process.

. It is perhaps more appropriate to split payments-in-lieu of taxes and telephone and telegraph revenues at the time of a County or Region-wide reassessment as in order to achieve a uniform upper-tier mill rate these revenues must be treated as general revenues before apportionment.

The General per Household Grant was originally provided to upper-tier municipalities in Regions in response to the needs of these municipalities in providing services. To split the grant in order to lower the mill rates of some lower-tier municipalities is not a valid reason to change the existing grant structure as splitting the grants causes a redistribution of funds in some municipalities, a loss of grants in others or an accounting change in others.

RECOMMENDATION

Due to the shift and perhaps loss of funds to municipalities within a Region, the Association recommends that the General per Household Grant continue to be paid to upper-tier municipalities in Regions and lower-tier municipalities in Counties.

4. EXAMINATION OF UNCONDITIONAL GRANTS PROGRAM IN RELATION TO SLOW GROWTH MUNICIPALITIES

In 1988, the Association undertook an extensive analysis of the impact of the unconditional grants program on slow growth municipalities as concern had been expressed by member municipalities that the program favoured high growth municipalities.

The analysis was conducted by dividing all municipalities into quartiles based on assessment and household cumulative growth rates. The first quartile contained slow growth municipalities having a five year cumulative assessment growth averaging 1 percent and a five year cumulative household growth averaging approximately -1 percent. The cumulative growth rates for levies and grants for this quartile were compared to those for the other three quartiles with higher household and assessment growth rates.

The analysis showed that, for the most part, municipalities in the slow growth quartile had cumulative levy growth rates and grants growth rates similar to those with higher household and assessment growth rates.

In recognition of the difficulties slow growth municipalities are experiencing, the Association has recommended that all municipalities receive increases in their grant entitlements through the increase rate of the General Support Grant and through a higher Revenue Guarantee.

RECOMMENDATION

Since the analysis has indicated that the unconditional grants program does not favour high growth municipalities the Association recommends that the existing unconditional grants structure be maintained for the 1989 unconditional grants year.

TABLE 2

IMPACTS OF THE RECOMMENDATIONS ON THE 1989 UNCONDITIONAL GRANTS PROGRAM

1987-1988 Unconditional Grants

By Type

	1988 $000 (estimate)	% of Total	1989 $000 (projected)	% of Total
Gen/hh	108.8	12.6	111.3	11.6
Pol/hh	149.9	17.4	153.5	16.0
Den/hh	5.4	0.6	5.5	0.6
Subtotal	264.1	30.6	270.3	28.2
GSG	350.5	40.7	449.9	47.0
NSG	87.5	10.2	93.3	9.8
Subtotal	438.0	50.8	543.2	56.8
REG	123.5	14.3	109.9	11.5
Rev. Guar.	36.5	4.2	33.2	3.5
Total	862.1	100.0	956.6	100.0

ACKNOWLEDGEMENTS

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The members are: Mr. David Hipgrave, Chair of the Sub-Committee and Director, Metropolitan Toronto Management Services Department; Mr. Jack Gartley, Treasurer, Regional Municipality of Durham; Mr. George Skirda, Treasurer, Regional Municipality of Sudbury; Mr. George Clarke, Treasurer, City of Toronto; Mr. Robert Rooks, Director of Finance, City of Burlington; and Mr. Ron Eddy, Reeve, Township of South Dumfries.

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